

## Message Text

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ACTION ARA-10

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DEPARTMENT PASS USDOC

E.O. 11652: N/A

TAGS: EFIN, ECON, BEXP, BL

SUBJ: BOLIVIAN TARIFF RATES LOWERED

REF: (A) LA PAZ 49 (B) LA PAZ 1056

1. IN HIS YEAR-END SPEECH, PRESIDENT BANZER PROMISED TO TAKE MEASURES TO INCREASE BUYING POWER OF BOLIVIAN PUBLIC. WHEN THE GOVT. DECIDED IN MID-JANUARY NOT TO ADOPT FULL ECONOMIC PACKAGE (REFTEL A) IT DID MOVE TO FULFILL PRESIDENT'S PROMISE BY SEVERAL DECREES THAT REMOVED TARIFFS ON PHARMACEUTICALS AND LOWERED TARIFFS ON VEHICLES, MANY TEXTILES AND SOME DOMESTIC APPLIANCES. DECREES ALSO GAVE MINISTRY IND/COM AUTHORITY TO SET PRICES TO INSURE THAT TARIFF REDUCTIONS WILL BE PASSED ON TO CONSUMER. TO STIMULATE INDUSTRIAL ACTIVITY THROUGH EXPORTS, SEPARATE DECREE ESTABLISHED SYSTEM OF CUSTOM AND TAX REFUNDS FOR MATERIALS INCLUDED IN EXPORTED ITEMS.

2. DECREE ON PHARMACEUTICAL IMPORTS STILL SUBJECT OF DISCUSSIONS BETWEEN IMPORTERS, RETAILERS AND GOVT. IT FREES DRUGS FROM ALL DUTIES AND DOMESTIC TAXES AND ESTABLISHES NEW PRICING STRUCTURE THAT WILL FREEZE RETAIL PRICES AT NEW, LOWER LEVEL. PHARMACEUTICAL IMPORTERS ARE ALLOWED TO TACK 25 PER CENT TO CIF LA PAZ COSTS AND RETAILERS  
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ARE HELD TO A 20 PER CENT FURTHER MARK-UP. DECREE IMPLIES

THAT GOVT. CAN REDUCE IMPORTER'S MARGIN IF THERE IS EXCESSIVE DIFFERENCE BETWEEN FOB AND CIF LANDED PRICE.

3. LOWER DUTIES WILL AFFECT ALMOST ALL NEW VEHICLES IMPORTED, EXCEPT MOTORCYCLES AND TRACTORS BETWEEN 40 AND 120 HP WHOSE IMPORTS PROHIBITED SINCE THEY ASSEMBLED IN COUNTRY. THUS, 50 PER CENT AVERAGE DUTY REDUCTION WILL AFFECT CURRENTLY MOST COMMONLY IMPORTED TRUCKS, TRACTORS, BUSES AND FAMILY AUTOS. DECREE JUSTIFIES NEW DUTIES AS DESIGNED TO IMPROVE COUNTRY'S VEHICLE STOCK AND TO AVOID RISE IN PUBLIC TRANSPORTATION RATES. IN RECENT PAST, PUBLIC DEBATE HAS BROUGHT OUT ARGUMENT THAT DUTIES ON VEHICLES AND OTHER ITEMS WERE SO HIGH AS TO ENCOURAGE CONTRABAND AND THAT LOWER DUTIES WILL IN FACT INCREASE CUSTOMS RECEIPT. DECREE ON VEHICLES ALSO EMPOWERS GOVT. TO SET PRICES TO ASSURE THAT DUTY SAVINGS PASSED ON. DECREE HINTS THAT NEW DUTY LEVELS WILL LATER BE CHANGED WHEN AUTOMOTIVE AGREEMENT OF ANDEAN PACT FINALLY CONCLUDED.

4. NEARLY THREE-FOURTHS OF ALL TEXTILES AND DRY GOODS RECEIVE LOWER DUTY FROM THIRD DECREE (ALTHOUGH SEVERAL ITEMS RECEIVE MORE PROTECTION). LIMITED NUMBER OF DOMESTIC APPLIANCES ARE ALSO AFFECTED. SINCE GOVT. HOLDS OUT THREAT OF PRICE CONTROL, UNWEIGHTED AVERAGE REDUCTION AT 45 PER CENT WILL HAVE SOME IMPACT ON WIDE SPECTRUM OF BUYING PUBLIC.

5. DECREE LAW ESTABLISHING CUSTOMS AND TAX REBATE SYSTEM AIMED AT ENCOURAGING EXPORT INDUSTRIES ESPECIALLY WITH VIEW TO MORE ACTIVE PARTICIPATION BY BOLIVIA IN ANDEAN PACT. EARLY EFFECT OF DECREE PROBABLY WILL BE QUITE SMALL SINCE 1971 INVESTMENT LAW ALREADY PROVIDES MORE FLEXIBLE CUSTOMS AND TAX TREATMENT TO THOSE NEW INDUSTRIES (ALMOST ALL MODERN INVESTMENTS) WHICH RECEIVE ITS BENEFITS. NEW LAW PROVIDES REFUND ON PRESENTATION OF DOCUMENTS PROVING EXPORT WHEREAS INVESTMENT LAW PROVIDES EXEMPTIONS AT PORT OF ENTRY FOR ALL NEEDED IMPORT ITEMS.

6. COMMENT: DECREES DESIGNED TO DEFUSE NEED FOR GENERAL PACKAGE OF WAGE AND PRICE INCREASES. IN FIRST DAYS AFTER LIMITED OFFICIAL USE

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DECREES PUBLISHED THERE HAS BEEN CONSIDERABLE ADVERTISING OF LOWER PRICES. HEAVY ADVERTISING OF NEW PRICES IN LOCAL PRESS SUGGESTS THAT ONE EFFECT OF DUTIES WILL PROBABLY BE HEAVIER IMPORT OF PRIVATE AUTOS AND APPLIANCES. GOB SPOKESMEN, NONETHELESS, HAVE LECTURED BUSINESSMEN ABOUT NEED TO MAKE MORE SIGNIFICANT PRICE REDUCTIONS WHILE THEY HAVE ARGUED THAT PROPORTIONAL DECREASES CANNOT BE MADE BECAUSE THEIR COSTS FROM ABROAD RISING. DEALERS HAVE ALREADY

REDUCED VEHICLE PRICES BY 20 PER CENT BUT MINISTER IND/COM HAS CALLED FOR GREATER REDUCTIONS. GIVEN GOB'S BUREAUCRATIC LIMITATIONS IT IS PREDICTABLE THAT PRICE CONTROLS WILL EVENTUALLY BE CIRCUMVENTED IN MANY CASES. ALTHOUGH BOLIVIA'S POOR MAY FEEL MARGINAL IMPACT OF LOWER CLOTHING PRICES AND STABLE PUBLIC TRANSPORT FARES, MAIN DIRECT BENEFICIARY OF LOWER TARIFFS WILL BE URBAN MIDDLE CLASS AND IMPORTERS.

7. FISCAL IMPACT OF MEASURES MIGHT CUT BOTH WAYS. ON BASIS OF 1970 FIGURES FOR ITEMS AFFECTED BY CUTS, EMBASSY ESTIMATES THAT TARIFF COLLECTIONS MIGHT DIP BY 18 PER CENT WITH THE POSSIBILITY THAT INCREASED IMPORTS THROUGH OFFICIAL CHANNELS COULD REDUCE THAT IMPACT BY ONE-THIRD OR MORE.

8. EMBASSY POUCHING COPIES OF DECREES TO USDOC.  
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## Message Attributes

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